

7915 Xavier Court
Dallas, Texas 75218-4513

November 20, 2003

Public Company Accounting Oversight Board Via email to comments@pcaobus.org
Office of the Secretary
1666 K Street, N.W.
Washington, DC 20006-2803

Re: PCABO Rulemaking Docket No. 008 - Comment letter on Proposed Auditing Standard *An Audit of Internal Control Over Financial Reporting Performed In Conjunction With An Audit Of Financial Statements*

I am writing to express my opinions regarding the above referenced Proposed Auditing Standard. My responses are numbered to correspond to certain of the questions raised by the Board in the Proposed Standard.

- Question No. 1: The decision as to whether to call the auditor's report (i) an audit of internal control over financial reporting vs. (ii) an audit of management's assessment of the effectiveness of internal control over financial reporting should be based upon the scope of work required of the auditor. The scope of the Proposed Standard requires the auditor to perform procedures that are fairly characterized as an audit of internal control over financial reporting. The auditor would not be required to perform as extensive procedures if they were issuing a report on management's assessment of the effectiveness of internal control over financial reporting. Since both the Sarbanes-Oxley Act and SEC Release No. 33-8238 only require the later, I believe the Board should either (i) reduce the scope of the procedures required of the auditor, who would issue an attestation report on management's assessment of the effectiveness of internal control over financial reporting or (ii) set forth the reasons it believes that the more extensive (and expensive) audit of internal control over financial reporting is appropriate.
- Question No. 4: I do not believe the Proposed Standard gives appropriate consideration as to how internal control is implemented. Paragraph 15 addresses the inherent limitations in any system of internal control over financial reporting. Paragraph 16 addresses the *reasonable assurance* aspect of any system of internal control over financial reporting. Yet both of these concepts do not appear to be adequately addressed in the definitions of *internal control deficiency, significant deficiency or material weakness* contained in Paragraphs 7 - 9. The Proposed Standard should be clarified in this regard.
- Questions No. 9 and 10: The auditor should be allowed to use their professional judgment to determine whether or not walkthroughs are an appropriate procedures to perform, and whether they need to be performed by the auditor themselves or whether they can be performed by others (e.g. internal auditors).

- Questions No. 12 - 15: The auditor should be allowed to use their professional judgment to determine the nature and extent to which the auditor can use the work of management or others, including internal auditors, and the nature and extent to which the auditor will test the work of others. Detailed rules are not required.
- Questions No. 22 - 24: Due to the inherent conflict of interest, the auditor should not be required to evaluate the effectiveness of the audit committee to whom the auditor directly reports, insofar as it relates to the auditor's reporting on internal control over financial reporting. As an alternative, it may be appropriate for the auditor to subjectively evaluate the audit committee, along with other pertinent factors, before deciding whether or not to accept the engagement.

Thank you for your consideration of these comments and suggestions.

Best regards,

Greg Swalwell